



Micro, Small and Medium Enterprises - Economic Indicators (MSME-EI)

Analysis Note

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Acknowledgements

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Foreword



Micro, small and medium enterprises (MSMEs) are the focus of financial sector operations at the International Finance Corporation (IFC) because they are drivers of economic growth, and contribute to productivity, employment and innovation. A large share of new jobs worldwide are created by MSMEs. Nearly 3.3 million jobs will be needed every month to absorb the growing workforce in emerging markets by 2030. Access to finance remains one of the most important constraints for the survival, growth, and productivity of MSMEs. The IFC's MSME finance gap analysis 2017 indicates that 40 percent of formal MSMEs have an unmet financing need of US\$5.2 trillion, including US\$1.5 trillion attributable to women owned MSMEs.

The IFC's mission focuses on private sector development in emerging markets, and solving the problems faced by MSMEs is an important part of that mission. Equally important is gathering and using data which can help define these businesses, identify their constraints and then customize solutions to match their specific needs. Data collation is the first step to improving the knowledge base for policy, product and service formulation in MSME financing.

A group of staff from across the World Bank Group have updated available information on MSMEs in this 2020 edition of the MSME Economic Indicators (MSME-EI). It provides economy-level data for MSMEs in 176 economies, including 21 new economies. It is estimated that at the end of the data collection period in 2019, there were over 322 million formal MSMEs, employing more than 705 million people. The data is an important step, but it is not exhaustive in covering fragile countries. Also, gender-disaggregated data is still unavailable for many emerging economies.

Measuring impact and ensuring additionality are critical to achieving IFC objectives. As such, the IFC has launched initiatives to address these critical data gaps. The IFC tracks and analyzes financing outreach to the final recipients, mostly MSMEs. It supports collateral registries and credit bureaus that generate critical data on millions of MSMEs. Furthermore, IFC invests in and works with FinTech companies to develop innovative ways to obtain alternative MSME data and accelerate the availability of MSME data stock. Another key priority, promoting knowledge sharing through the SME Finance Forum, is being managed by IFC. In this context, the IFC regards

partnerships that foster the exchange of data as extremely important for MSMEs if they are to survive and thrive.

Globally, MSMEs have been disproportionately impacted by the COVID-19 crisis due to their vulnerability to economic shocks. The World Bank Group (WBG) is now implementing a financial response program to alleviate the impact and facilitate sustainable recovery. The IFC is playing a key role by providing support to private companies to help sustain economies and preserve jobs.

The World Bank Group will continue to work toward a more streamlined business environment, while facilitating better access to finance and supporting MSMEs around the world. We will commit resources and explore innovative partnerships to enhance the availability of quality MSME data, filling any critical gaps. Thus, we will help to accelerate the contribution of MSMEs to inclusive and sustainable economic growth, particularly in emerging markets.

Hans Peter Lankes

Vice President, Economics & Private Sector Development, IFC



Abstract

This note provides an overview of the MSME Economic Indicators (MSME-EI) database, previously known as the MSME Country Indicators database. It collates the official country level definitions of Micro, Small, and Medium Enterprises (MSMEs) from over 176 economies. The comprehensive database is a unique data source that highlights the variety of definitions, allowing the IFC to assess the use of the definition across economies.

The latest data suggests the following observations: First, the number of employees continues to be the most widely used variable for defining MSMEs across economies. However, the thresholds for classifying an enterprise by size vary across countries — and, sometimes, even within a country. Second, in the 77 economies where data is available, there are 322 million formal MSMEs employing almost 72 percent of private sector employees. Third, MSME density as measured by the number of formal MSMEs per 1,000 people, is higher in high-income economies. However, the growth rate in the number of MSMEs is highest among low- and middle-income economies and countries in Europe and Central Asia.

In countries where a credible data source was available, MSMEs, on average, account for 78 percent of employment, ranging from 50 to 90 percent across regions. They also contribute significantly to the amount of value added to an economy, particularly in emerging economies, but at a lower magnitude when compared with their contribution towards employment.

Terms of use and disclaimer

Please read the Methodology Note on the MSME Economy Indicators (MSME-EI) along with the country-specific comments in the MSME-EI Excel workbook before using the data from the SME Finance Forum data site. The MSME-EI presents the secondary data. The original data are collected by various institutions (statistical institutes, ministries, international organizations, small business promotion agencies, research institutions and others) using a variety of methods (mainly census). Thereby, the data are not always standardized across countries and time which, among other issues, may hamper data comparability and aggregation. The IFC is not responsible for the quality, accuracy, reliability or completeness of the data collected from external sources.

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Introduction

Firms have been the cornerstone of economic development and socioeconomic progress. Early economic theory favorably viewed smaller firms. For instance, the theory of perfect competition had shown that markets with many small firms producing identical products would lead to a 'technical optimum', that is, an equilibrium whereby the output would be associated with the lowest average cost. The other school of thought influenced by Schumpeter created an awareness that larger firm size is associated with economies of scale, which could contribute to the innovatory role of firms. Over the last century, there has been a lot of research about the role of small versus large firms, including the question of which are more developmental. A solution has not yet been found. However, what has clearly emerged is the importance of differentiating firms or enterprises by type, that is, classifying them by size, as micro, small, medium and large.

The classification of firms by size implies a different meaning across the world. For example, would a small business in Afghanistan be considered the same in Brazil? What is the dividing line between a small business and a micro business? Every government and financial institution focuses on reaching micro, small and medium enterprises (MSMEs), but can an approach used in one country be easily replicated in a different country? This endless list of questions has a simple answer – 'definitions.' There is a lack of publicly available data across countries which lays out the definition followed by each country, as well as by different institutions within each country. Definitions are the building block of any research, but they are also important in designing interventions which best suit the needs of enterprises. Definitions also help in understanding which size and type of businesses exist, their needs, as well as which firms would benefit from which kind of intervention.

The ongoing COVID-19 pandemic has led to a global recession, with many businesses, particularly SMEs, severely affected. This has resulted in huge spikes in unemployment and some businesses are permanently shut. Although there are fiscal and monetary policies aimed at supporting small businesses, these are difficult to implement in the absence of clear definitions. Therefore, it has become even more necessary to have consistent definitions that would allow for proper targeting of firms through national policy interventions, as well as interventions by development agencies, such as the World Bank Group.

Since 2007, the International Finance Corporation (IFC) has been collecting publicly available official MSME definitions used by economies around the world. This has enabled the IFC to build four large cross-section and time-series data sets with observations for the years 2007, 2010, 2014¹, and 2019.² The previous updates were called MSME Country Indicators. However, this update, launched in 2019, is called MSME Economic Indicators (MSME-EI) to reflect the expanded number of new economic indicators covered by the dataset. The data for the 2019 update were collected between July and December of 2018.

Over the years, the database expanded its coverage both in terms of the number of economies and the number of indicators. Specifically, this 2019 update includes 44 additional economies, primarily in low-income and lower middle-income economies. As a result, the total list of economies now reviewed is 199 economies (as compared to the 2014 update, which covered 155 economies). Newly collected data regarding formally registered MSMEs are available for 169 economies. Although progress has been made in data collection, 30 economies still do not have publicly available data related to their MSMEs. These

¹ The Complete Analysis Note can be accessed here:

https://www.smefinanceforum.org/sites/default/files/analysis_note_2010.pdf

² The Complete Analysis Note can be accessed here:

<https://www.smefinanceforum.org/sites/default/files/analysis%20note.pdf>

include 23 newly added economies and seven economies which were included in the 2014 update, but which no longer report updated data. The data for the seven economies³ from the 2014 update were pre-populated into the 2019 version of the database.

The latest update includes data for 176 economies, and reports MSME data from more than one official data source, where available (Figure 1). For example, there are up to four sources in the cases of Argentina, Brazil, Colombia and the United States of America. The core dimensions of data include: MSME definitions; the number of enterprises by size; MSME employment contribution by size of enterprise; and MSME contribution to the economy as measured by value added. In the 2019 update, four new dimensions are introduced, including MSME lending, MSME loan quality, women-owned MSMEs, and firm informality.

Figure 1: The Evolution of MSME Economic Indicators



This report aims to address the following: First, it highlights the various MSME definitions and sources of available data. Second, it estimates the total number of MSMEs globally, along with corresponding growth rates. Third, it presents a preliminary analysis about the distribution of MSMEs across regions and income groups, including their contribution to employment and gross domestic product (GDP). Fourth, it explores the relationship of MSMEs with access to finance, as well as the importance of having conducive regulatory environments to support these businesses. Finally, the report uses the findings from the data analysis and provides some recommendations to enhance the availability and quality of MSME definitions.

Data Collection

The Micro, Small, and Medium Enterprises Economic Indicators database is curated by the International Finance Cooperation. The database aims to provide cross-economy and time-series data related to MSMEs from all available official sources. It has been used by policy makers, researchers, and private sector companies working on MSME-related topics.

The 2019 update of the MSME-EI database expands both the number of economies and the number of indicators covered. This update includes 44 additional economies, primarily in low-income and lower middle-income economies

The data collection process was conducted at the IFC by a team of consultants over a 6-month period from July to December 2018. The process involved primary desk research to collect publicly available data from various official sources for each economy. Separately, the team undertook a data verification process for each economy, which included a review by regional IFC financial sector specialists, as well as peer

³ These economies include: Gabon, Guinea, Libya, Niger, Pakistan, Tajikistan, and the Republic of Yemen.

reviewers from inside and outside the IFC. The team also conducted numerous data quality checks to ensure the accuracy of the data.⁴

Data Analysis

MSME Definition

The term “MSME” encompasses a broad spectrum of definitions, and these definitions are all largely quantitative in nature, varying considerably between economies and regions. This is expected given that economies have diverse structural, cultural and political reasons for adopting their definitions of MSMEs. Generally, MSMEs are defined quantitatively and are based on either employee count, turnover or assets. Alternatively, they may be based on a combination of any two of these measures, or indeed all of them. Some are backed by law, whereas others are based on practice and policy.

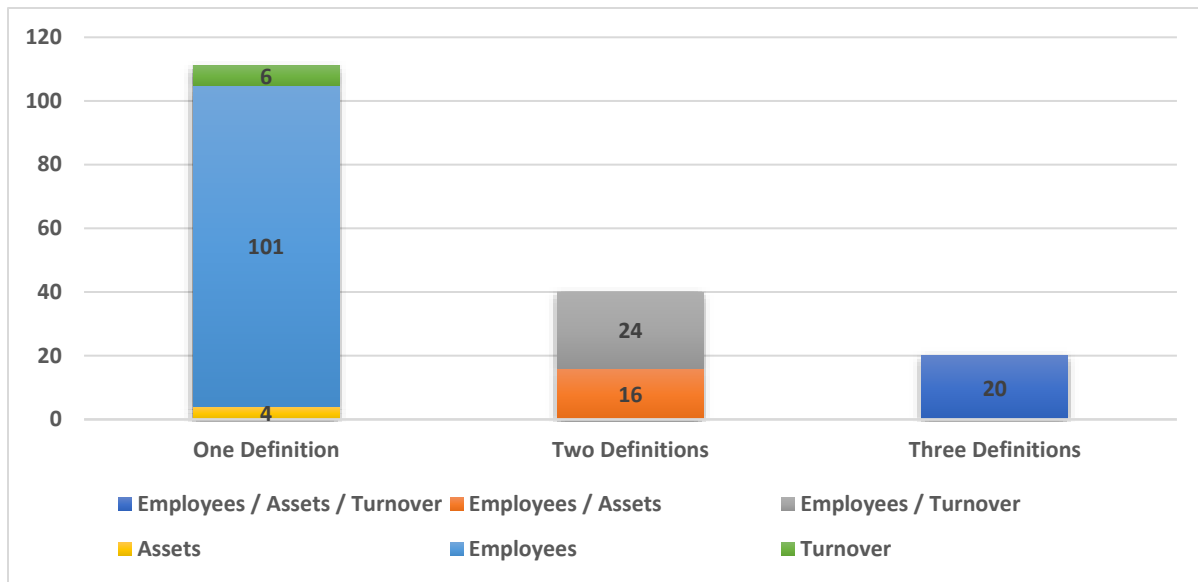
Definitions play a key role, as they are used to assess the inclusion of firms in receiving special support offered by national governments, bilateral and multilateral development institutions, and non-governmental organizations (NGOs). These support mechanisms could range from special credit lines and loan guarantees to firm-level business development services and technical assistance to fiscal incentives, such as tax holidays for early-stage companies. Over the years, the existing quantitative definitions have been called into question. One argument is that such rigid quantitative/size criteria, such as the number of employees and/or annual sales, may not reflect the underlying differences. Thus, they may need to be complemented by more qualitative definitions.

Historically, the number of employees has been the most widely used variable for defining MSMEs, followed by the volume of turnover and assets. Within those economies that use only one variable, the number of employees is also the most common measured used for defining a MSME. Across the 171 economies surveyed, 101 definitions utilize only the number of employees; four definitions use only assets; and six definitions utilize only turnover, as shown in Figure 3. Among the definitions utilizing more than one variable, the most common combination is one that uses two variables, namely, the number of employees and turnover. The second most common combination is one that uses all three variables, that is, the number of employees, turnover, and assets.

Despite variations in MSME definitions across countries, there is some level of agreement in the threshold of defining the broader MSME segment. For instance, the most common threshold for defining a MSME by the number of employees is 250 globally. Differing levels of income, among other factors, influence some economies—particularly low-income economies—to use lower threshold values of 50 or 100 employees. Similarly, the common threshold levels for small and micro enterprises are 50 and 10 employees, respectively. These threshold values also tend to decline with income levels in a given economy.

⁴ The Complete Methodology Note which presents the data collection and quality checks can be accessed here: <https://www.smefinanceforum.org/sites/default/files/Methodology%20Note%20on%20the%20MSME%20Country%20Indicators%202019.pdf>

Figure 2: Frequency of Definition Type among Surveyed Economies



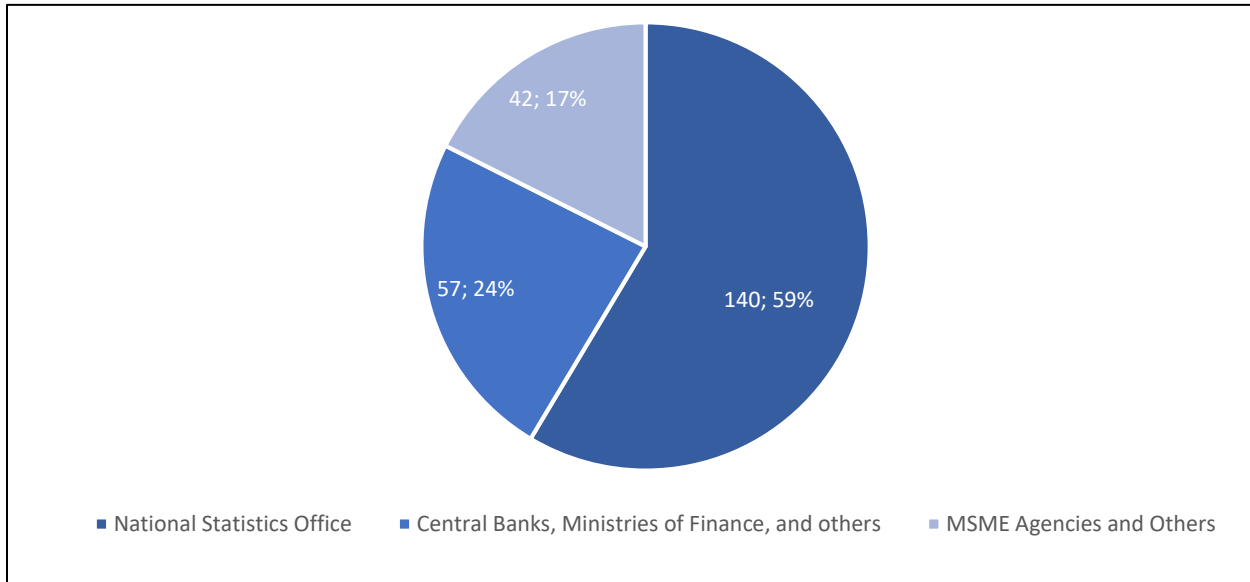
Source: MSME Economic Indicators 2019

Institutions use different methods to collect MSME data, including different variables and scales; thus, it is not uncommon to see a variety of MSME definitions even within a single country — let alone a single region. At the regional level, the European Union (EU) stands out because of the presence of a well-defined and standardized MSME definition, as well as the provision of comparable data from member countries on a regular basis. Having a clear and consistent country-level definition is helpful in identifying and providing special support to MSMEs. It is also important in generating statistics to monitor the health of the MSME sector over time.

Sources of MSME Data

The primary sources for official data on MSMEs are government agencies and specialized entities supporting MSMEs in a given country. In the latest MSME-EI database, of the 239 definitions, 140 (or 59 percent) came from the National Statistics Office; 57 (or 24 percent) from Central Banks, Finance Ministries, and similar government institutions; and 42 (or 17 percent) from MSME development/promotion agencies and other institutions across various fields working at the local or regional level as shown in Figure 3.

Figure 3: Official MSME Data Sources

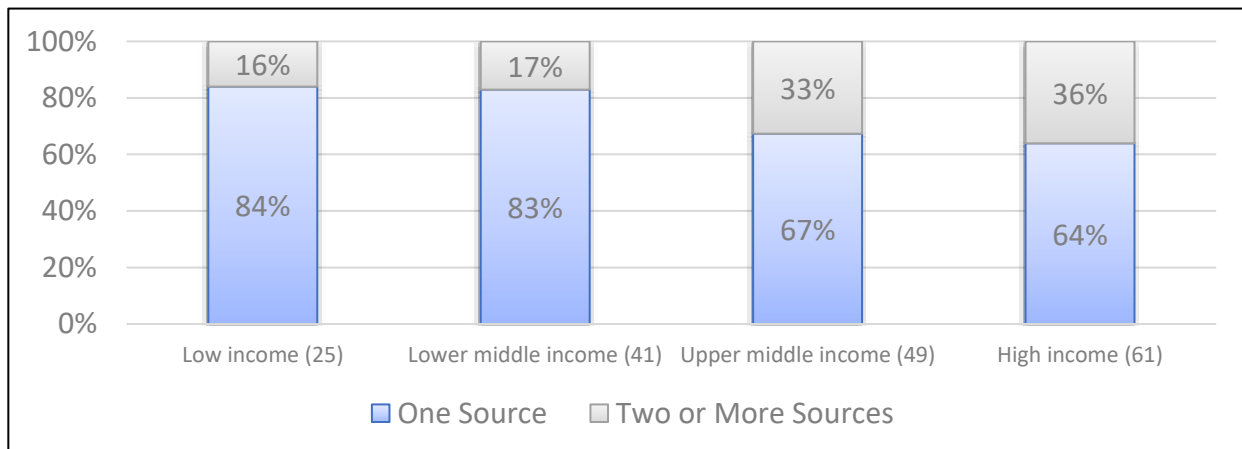


Source: MSME Economic Indicators 2019

Note: The first number indicates the number of institutions and the second is the percentage of institutions.

When compared across different income groups (Figure 4), lower-income economies tend to have a fewer number of official data sources for MSMEs as compared to higher-income countries. As shown in Figure 4, 84 percent of the data for low-income economies was obtained from one source and 16 percent from two or more sources. In the lower middle-income group, 83 percent of the data was obtained from only one source and 17 percent from two or more sources. In the upper middle-income group, 67 percent of the data was obtained from one source and 33 percent from two or more sources. Finally, in the high-income group, 64 percent of the data was obtained from one source and 36 percent from two or more sources.

Figure 4: Number of Data Source(s) used by Income Group



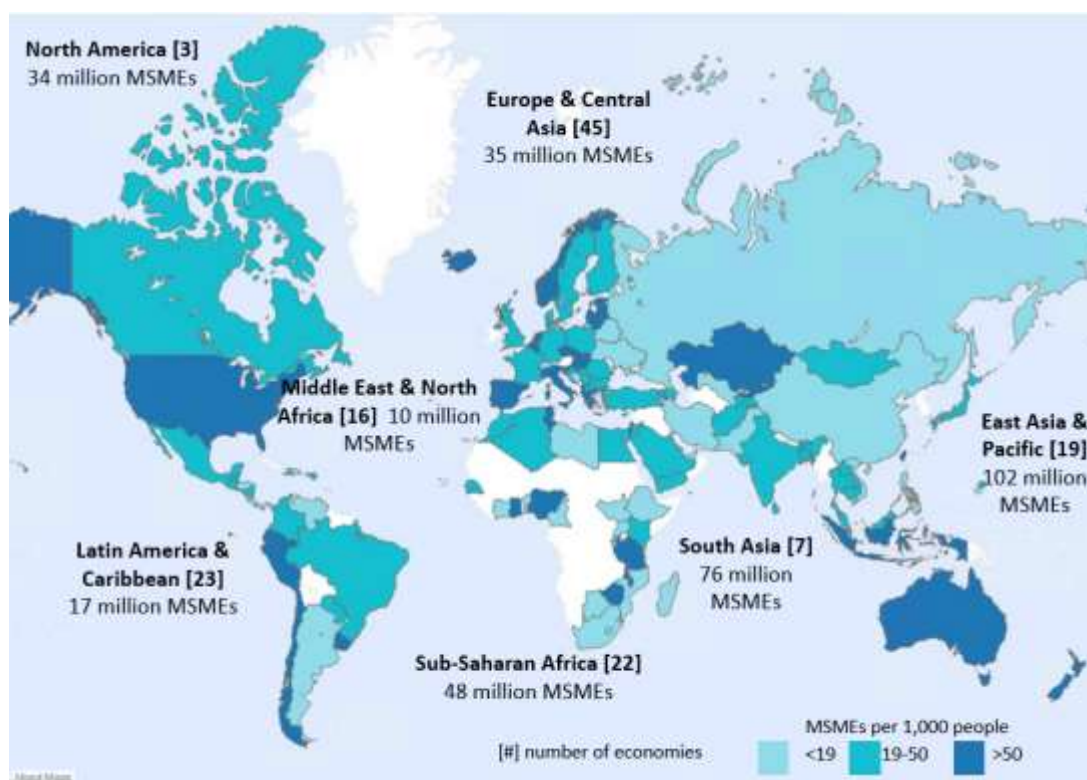
Source: MSME Economic Indicators 2019

Distribution of MSMEs by Region and Income Group

The database contains about 322 million formal MSMEs, with emerging markets accounting for roughly 61 percent (196 million). The East Asia and Pacific region is home to the largest number of MSMEs (102 million), whereas the Latin America and the Caribbean region has the smallest number of MSMEs (17 million). There are about 20 million formal SMEs, with about 5 million operating in emerging markets. There are around 277 million formal microenterprises, with emerging markets accounting for about 189 million. In addition, a number of countries only report data for the MSME sector as a whole, with a total of around 26 million MSMEs.

On average, there are about 40 MSMEs, with a median of 31, per 1,000 people; the five economies with the highest formal MSME densities, in the given order, are: Indonesia, Nigeria, San Marino, Kyrgyz Republic, and Liechtenstein. Available data suggests that formal MSME density is highest in high-income economies, followed by lower-middle and upper-middle economies, respectively.⁵ The higher MSME density in high-income economies (and lower in low-income economies) is likely to be explained by factors such as greater access to credit, government incentives, certainty in regulations and other business environment indicators. These factors require further in-depth research and will be explored later in this analysis note.

Image 1: Total Number of MSMEs and MSME density

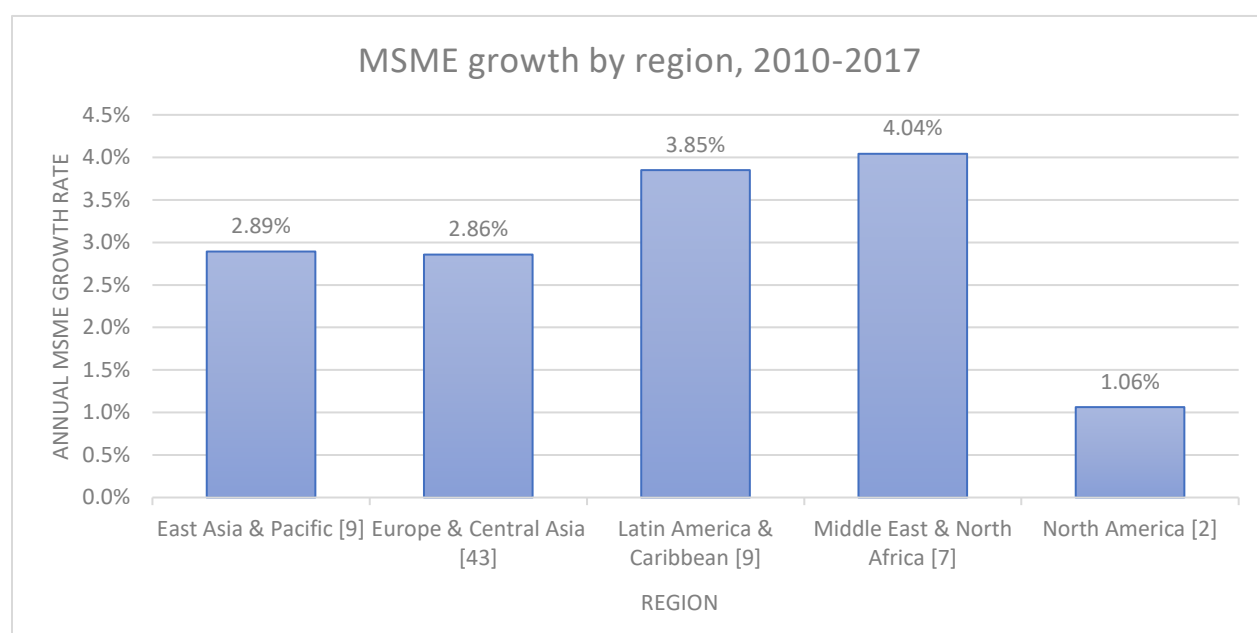


Source: MSME Economic Indicators 2019

⁵ When the outliers (Indonesia and Nigeria) are removed, the discrepancy between the lower-middle and upper-middle-income economies is minimal.

Globally, the average annual MSME growth rate stands at 3 percent in terms of the number of MSMEs. The Middle East and North Africa region registered the highest annual growth rate. The Latin America and the Caribbean, the East Asia and Pacific, and the Europe Central Asia regions also registered relatively high annual growth rates.⁶ Figure 5 shows that the annual growth rate is highest in upper-middle-income economies. More than half of the economies used to plot the annual MSME growth rates in the Middle East and North Africa and the Latin America and the Caribbean regions are upper-middle-income economies. Hence, the high annual growth rate can be attributed to the performance of upper middle-income countries, especially in the case of Latin America and the Caribbean.⁷

Figure 5: MSME Growth by Region, 2010–2017



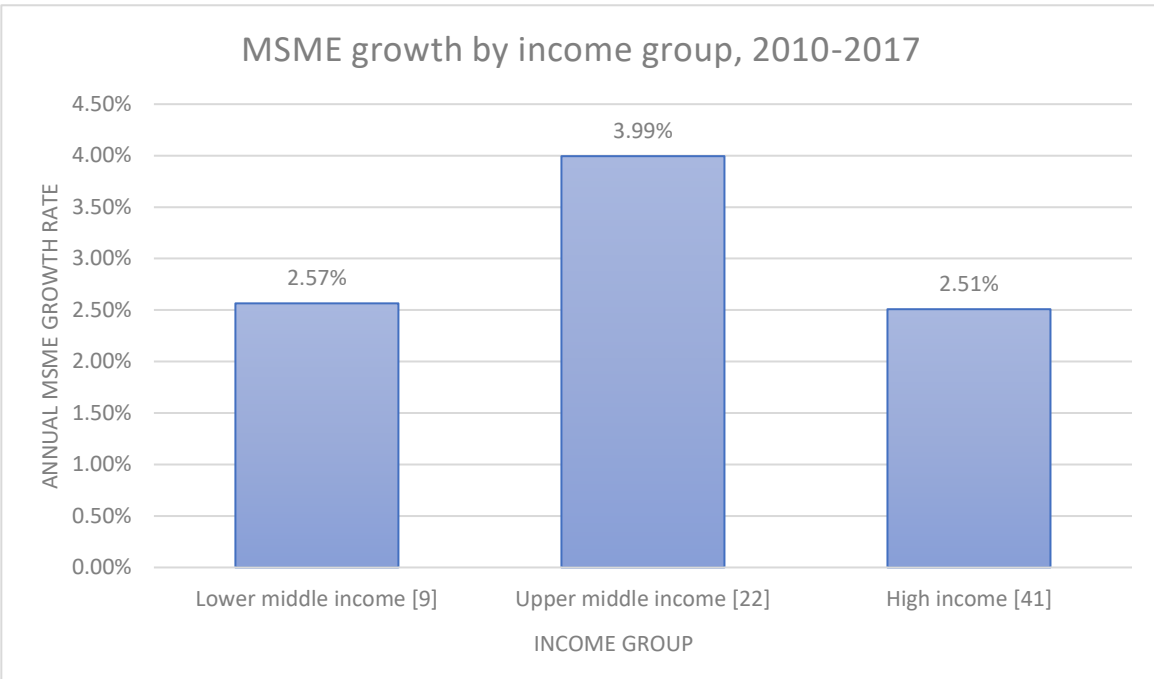
Source: MSME Economic Indicators 2019

Figure 6: MSME Growth by Income Group, 2010–2017⁸

⁶ The results for Sub-Saharan Africa (Burundi and Cabo Verde) and South Asia (Bhutan) are not included because they were based on data from only two or fewer economies

⁷ The Dominican Republic registered an average annual growth rate of 17 percent. When treated as an outlier, the annual growth rate for the Latin America and the Caribbean region drops from 3.85 to 2.2 percent.

⁸ Results for the low-income group are not included because they were based on data from only one economy (Burundi)



Source: MSME Economic Indicators 2019

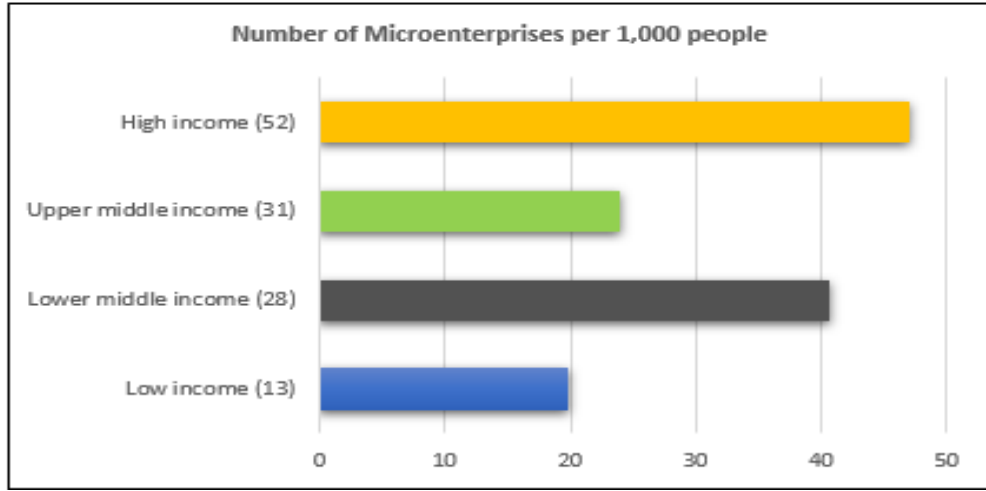
Note: Only data from economies whose MSME definition remained unchanged are used in the above historical analysis (Figure 5 and 6)

Analogous to the relationship between the number of formal MSMEs per 1,000 people and income levels, the number of formal microenterprises per 1,000 people is relatively lower in low- and upper-middle-income economies. It is higher in the high- and lower-middle-income economies. However, contrary to these trends, Figure 8 indicates that the number of formal SMEs per 1,000 people drops with income level.

A key highlight of this research is that lower-middle-income economies have a relatively greater microenterprise density — but not SME density — when compared to upper-middle-income economies. Since factors affecting the performance of medium-sized enterprises differ from those of micro and small enterprises, further research will be required to assess what aspects of an economy create discrepancies in the entry and sustenance of MSMEs across income levels.

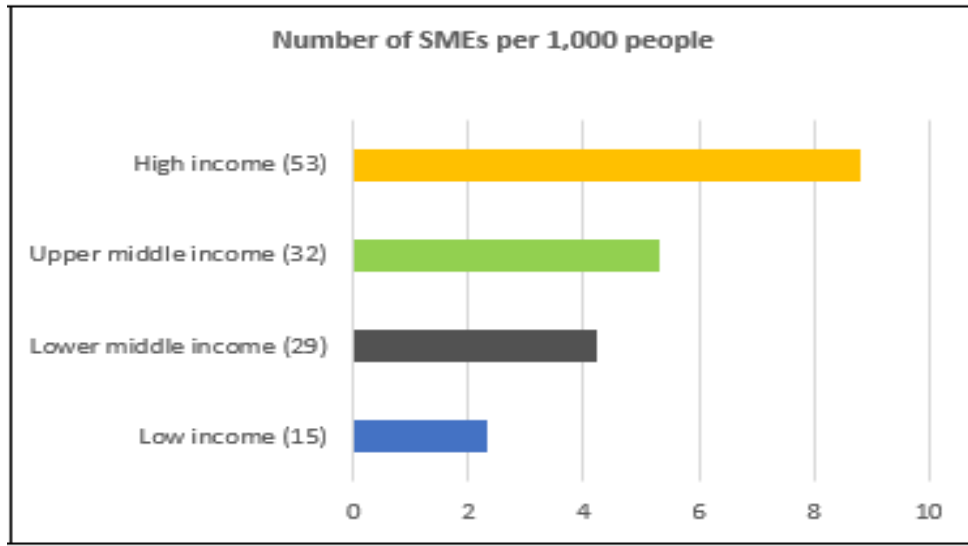
In the process of identifying the trends, it is helpful to note, as La Porta and Shleifer (2014) suggest, that low-income economies are likely to have a larger proportion of microenterprises that are not formally registered, and thus not recorded (Figure 7).

Figure 7: Number of Microenterprises per 1,000 People by Income Group



Source: MSME Economic Indicators 2019

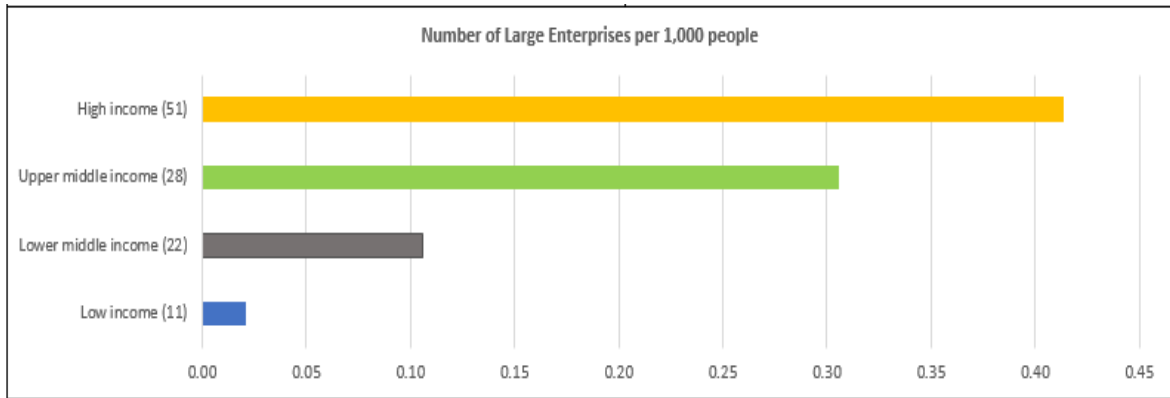
Figure 8: Number of SMEs per 1,000 People by Income Group



Source: MSME Economic Indicators 2019

Analogous to Figure 8, Figure 9 indicates that the number of large enterprises per 1,000 people drops with income level. In other words, a higher income group is associated with a higher density of large enterprises.

Figure 9: Number of Large Enterprises per 1,000 people by Income Group

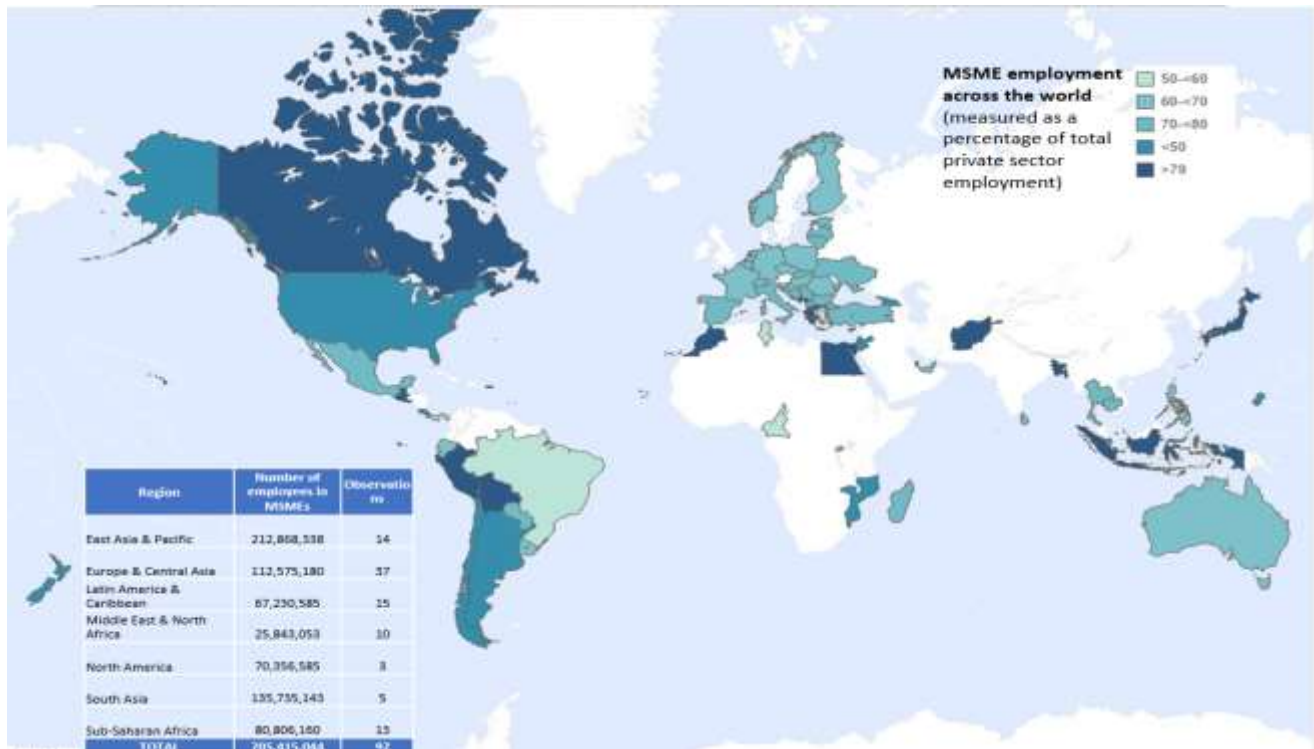


Source: MSME Economic Indicators 2019

Contribution of MSMEs to the Economy and Employment

MSMEs are important and are often the biggest contributors to total employment and job creation, especially among emerging economies. MSMEs not only employ the largest number of people, but they are also an important source of job creation. In the economies where a credible data source was available, MSMEs employ approximately 89 percent of total private sector employment in East Asia and the Pacific region (11 economies); 69 percent in the Europe and Central Asia region (31 economies); 62 percent in the Latin America and the Caribbean region (15 economies); 73 percent in the Middle East and North Africa region (8 economies); 53 percent in the North America region (3 economies); 85 percent in the South Asia region (4 economies); and 64 percent in the Sub-Saharan Africa region (5 economies).

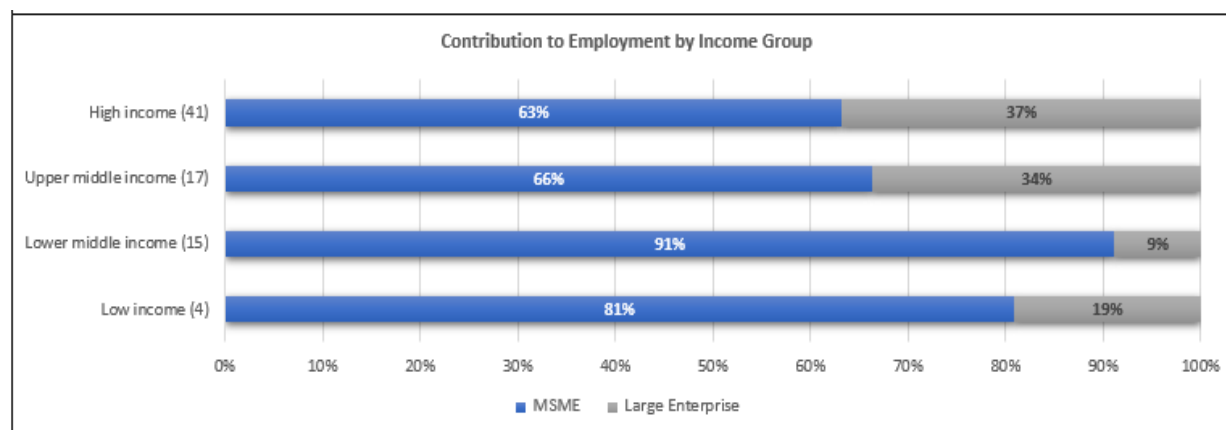
Image 2: MSME Employment Measured as a Percentage of Total Employment



Source: MSME Economic Indicators 2019

The MSME contribution to employment surpasses 60 percent in all four income groups, with the percent contribution being higher in the lower-middle and low-income groups, at 91 percent and 81 percent, respectively. It is lower in the upper-middle and high-income groups, at 66 percent and 63 percent, respectively (Figure 10).

Figure 10: MSME Contribution to Employment by Income Group



Source: MSME Economic Indicators 2019

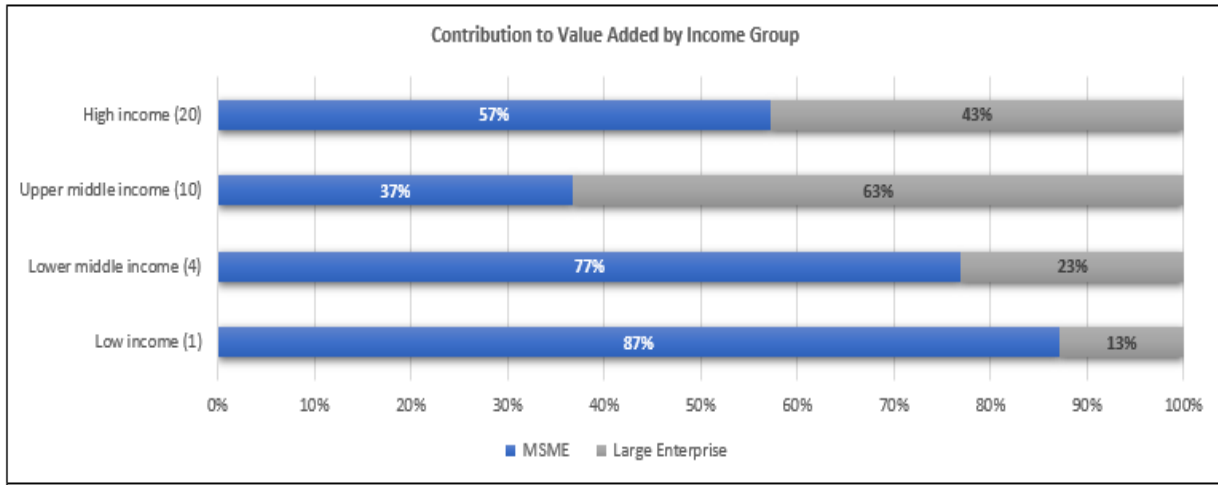
MSMEs are important, even crucial, to economies because of the sheer number of enterprises and their contribution to employment all over the world. However, as Figure 11 shows, their contribution to value added does not indicate the same level of importance across all four income groups. In the first three income groups (that is, high, upper middle, and lower middle), the percentage contribution of MSMEs to value added is lower than its percentage contribution to employment. In this context, the percentage contribution to value added is significantly lower in upper-middle-income economies. Conversely, in low-income economies, the percentage contribution of MSMEs to value added is higher than its percentage contribution to employment.

In the high-income economies, MSMEs contribute to 63 percent of total employment and 57 percent of value added. In the upper-middle-income economies, MSMEs contribute to 66 percent of total employment and 37 percent of value added. In the lower-middle-income economies, MSMEs contribute to 91 percent of total employment and 77 percent of value added. Finally, in low-income economies, MSMEs contribute to 81 percent of total employment and 87 percent of value added.

Figure 11 presents data for economies which report the value added by MSMEs. Fewer economies report value-added data than employment, and this selection issue may potentially skew conclusions made from the juxtaposition between Figures 10 and 11, especially for low- and lower-middle-income countries.⁹

⁹ The subset of economies reporting both value-added and employment is very small, particularly for low and low-middle income countries. The conclusion that lower income economies contribute relatively more on both value-added and employment than higher income economies carries through for this small sample of countries.

Figure 11: MSME Contribution to Value Added by Income Group

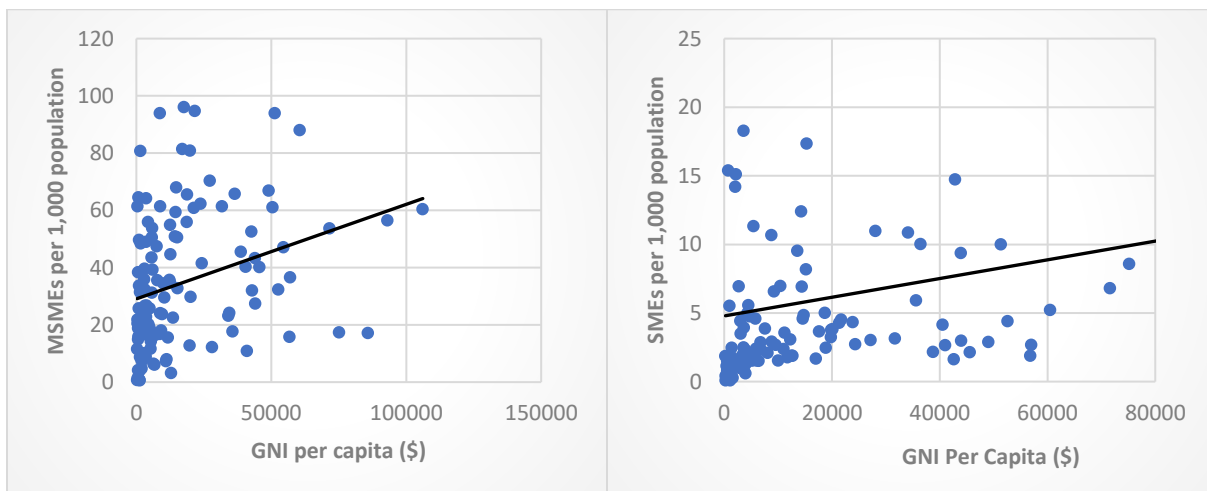


Source: MSME Economic Indicators 2019

Relationship of MSMEs to Macroeconomic Indicators

The MSME density in a country, defined as the number of formal MSMEs per 1,000 adults, is correlated to a number of macroeconomic and institutional factors. There are likely many factors that influence the entry and exit of MSMEs in a country, and these factors may be interrelated in a way that makes establishing the direction of causality difficult to determine. This section presents correlations of MSME density, but without further exploration of a causal impact. Income level is an important correlating factor of variations in MSME density across countries. Countries with higher income per capita, on average, have higher formal MSME density. The relationship is clearer with SME density than with microenterprise density. It is important to note that there is an element of complexity in this analysis, that is, the varying definitions of MSMEs across countries. In general, higher-income countries tend to have a higher upper-bound on MSME classification. Therefore, the correlation is likely to be stronger than if the MSME definitions were standardized across countries.

Figure 12: MSME and SME Density and Income per Capita



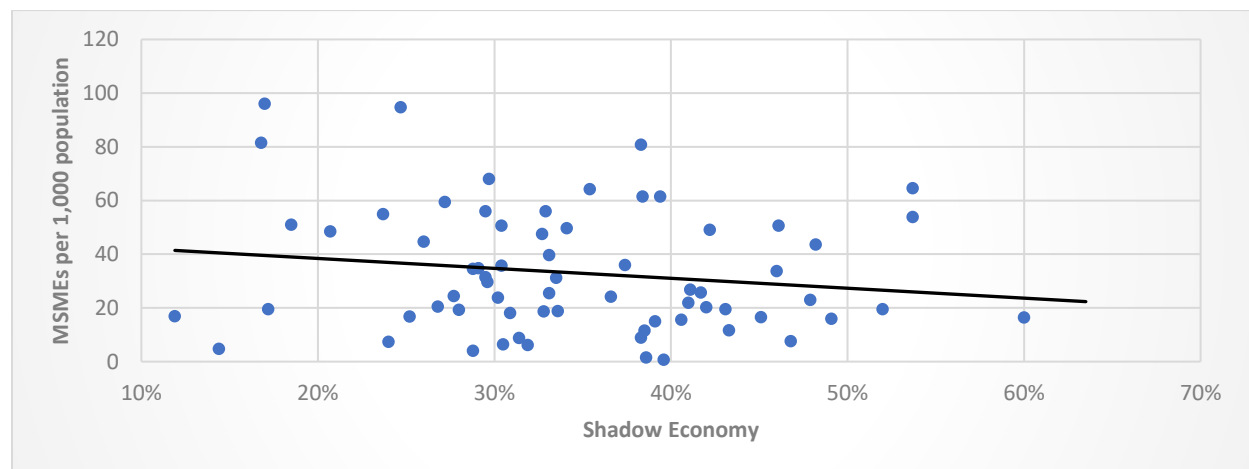
Source: MSME Economic Indicators, and World Development Indicators (GNI per capita, Current US\$).

Note: The figure uses data from 170 economies. The results of both the regression, controlling for regional dummies, are statistically significant at the 1 percent level. The economies included are covered in both databases, with available gross national income (GNI) per capita, according to the Atlas method.

For the remainder of the section exploring the relationship between MSME density and institutional environment, income per capita and regional dummies are used as controls in the regression analysis. This was done in order to extricate the strong correlation of density with these variables.

Despite the limited availability of informal sector data, Figure 13 suggests that the larger the informal sector in an economy, the lower the formal MSME density.

Figure 13: MSME Density and Shadow Economy

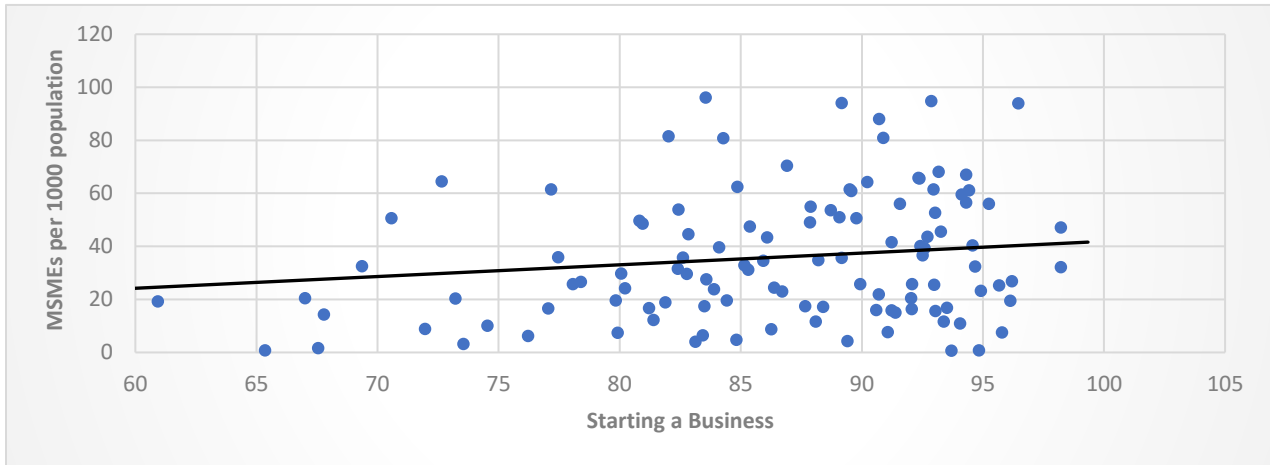


Source: MSME Economic Indicators, the MSME Finance Gap (World Bank Group, 2017), and Schneider (2011).

Note: The figure uses data from 97 economies. However, the results of the regression, controlling for income per capital and regional dummies, are not statistically significant at the 10 percent level. The economies included are covered in both databases, with available GNI per capita, according to the Atlas method.

A streamlined business environment, adequate competitive landscapes, and well-functioning institutional frameworks are associated with higher MSME densities across the world. Using the “Starting a Business” Indicator from the World Bank Group’s *Doing Business* report as an example, MSME density was higher in economies where regulations for starting a business are streamlined and the business environment is friendly in terms of lower costs. A limited number of procedures for registering a business also helps. In addition to the correlation with the overall score that is presented, the sub-components of the indicator relating to the “number of procedures” and “minimum paid-in capital required” were found to be the most meaningfully correlated. In this regard, the negative correlation with MSME density was statistically significant at the 1 percent level.

Figure 14: MSME Density and the Ease of Starting a Business

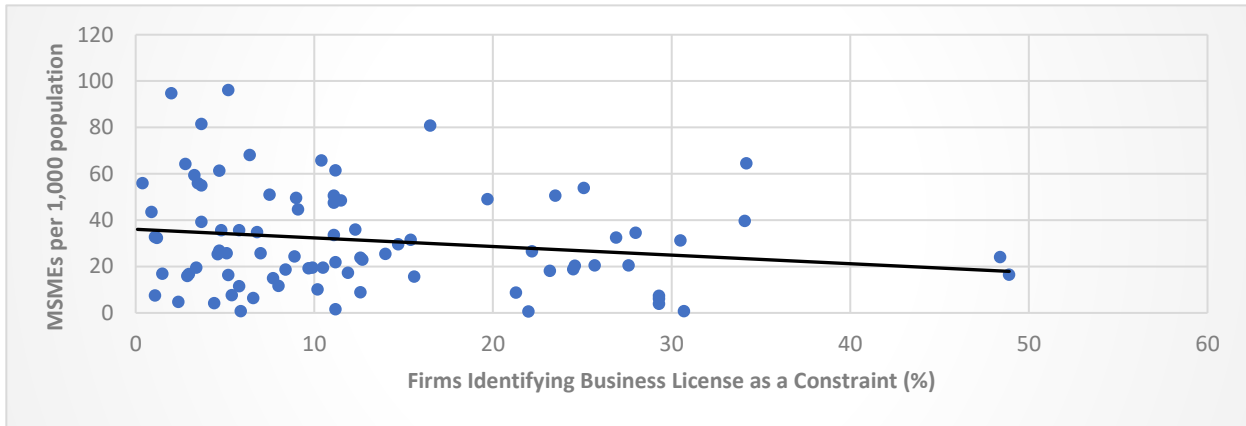


Source: MSME Economic Indicators and the World Bank *Doing Business* reports.

Note: The figure uses data from 124 economies. The results of the regression, controlling for income per capita and regional dummies, are statistically significant at the 5 percent level.

Firm-level data from the World Bank Enterprise Survey also shows that countries with more MSMEs citing a business license as a constraint was associated with lower MSME density.

Figure 15: MSME Density and the Business Lincensing Constraint

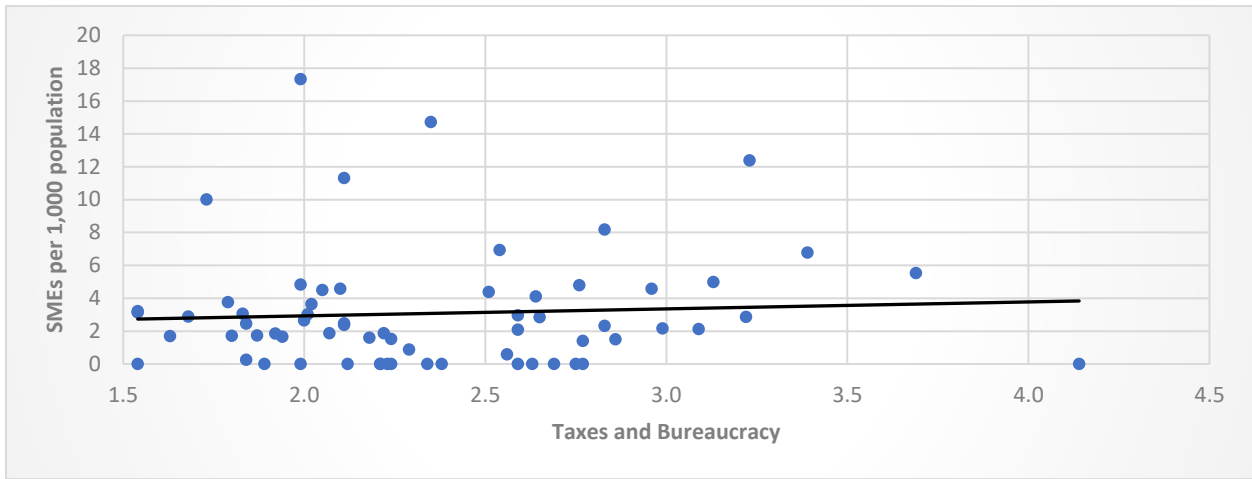


Source: MSME Economic Indicators and World Bank Enterprise Surveys.

Note: The Enterprise Survey data are survey-weighted country aggregates, as provided by the Enterprise Survey database. The figure uses data from 124 economies. However, the results of the regression, controlling for income per capita and regional dummies, are not statistically significant at the 10 percent level.

An important lever for the government to promote the MSME segment may be to design tax policies and regulations that positively discriminate in favor of smaller enterprises, ensuring that they are not burdened with the same fixed costs faced by larger enterprises. The Global Entrepreneurship Monitor (GEM) measures, among other things, the extent to which policies on taxes or regulations are either size-neutral or encourage new firms and SMEs. A higher value in the index, ranging from 1 to 5, corresponds to public policies that are more encouraging of SMEs in taxes and bureaucracy. SME density is positively correlated with this measure.

Figure 16: SME Density and Tax and Bureaucracy

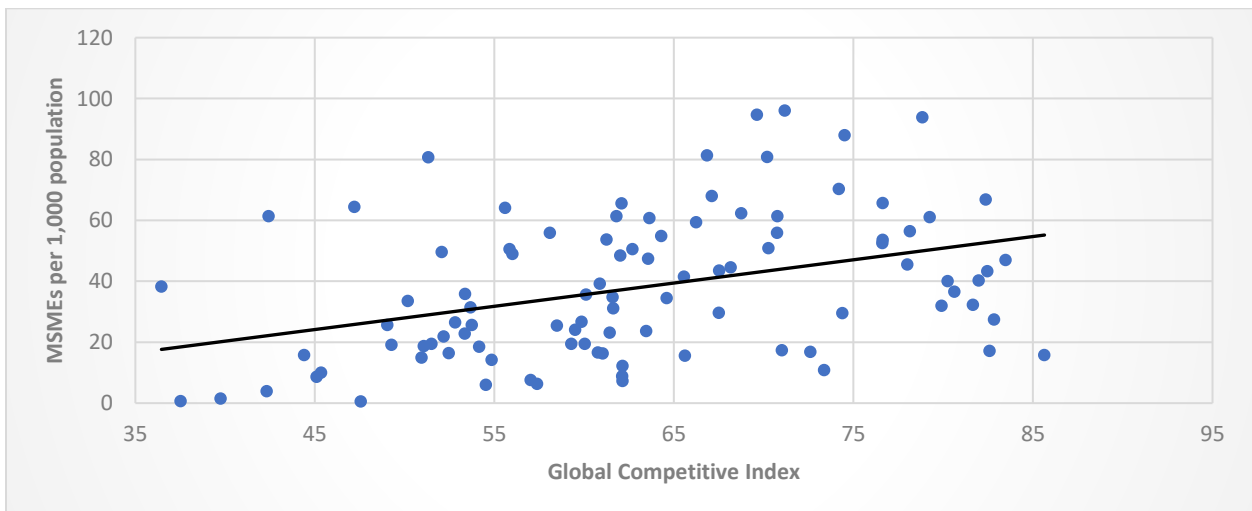


Source: MSME Economic Indicators and the Global Entrepreneurship Monitor (GEM).

Note: The GEM component measures the extent to which policies on taxes or regulations are either size-neutral or encourage new firms and SMEs. MSME density is positively correlated with this measure. The figure uses data from 124 economies. The results of the regression, controlling for income per capita and regional dummies, are statistically significant at the 10 percent level.

MSME density was also analyzed in relation to the World Economic Forum’s Global Competitiveness Index (GCI), which assesses the competitiveness landscape, providing insight into the drivers of productivity and prosperity. In addition, sub-components of the index relating to the institutional quality, business dynamism and financial systems, are associated with higher MSME densities.

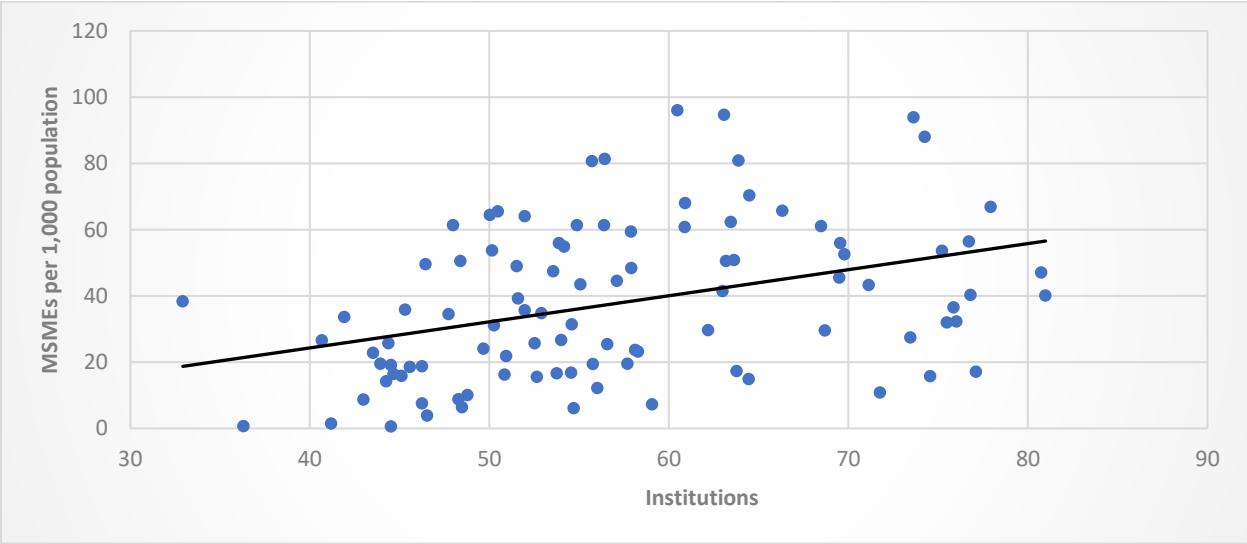
Figure 17: MSME Density and the Global Competitiveness Index



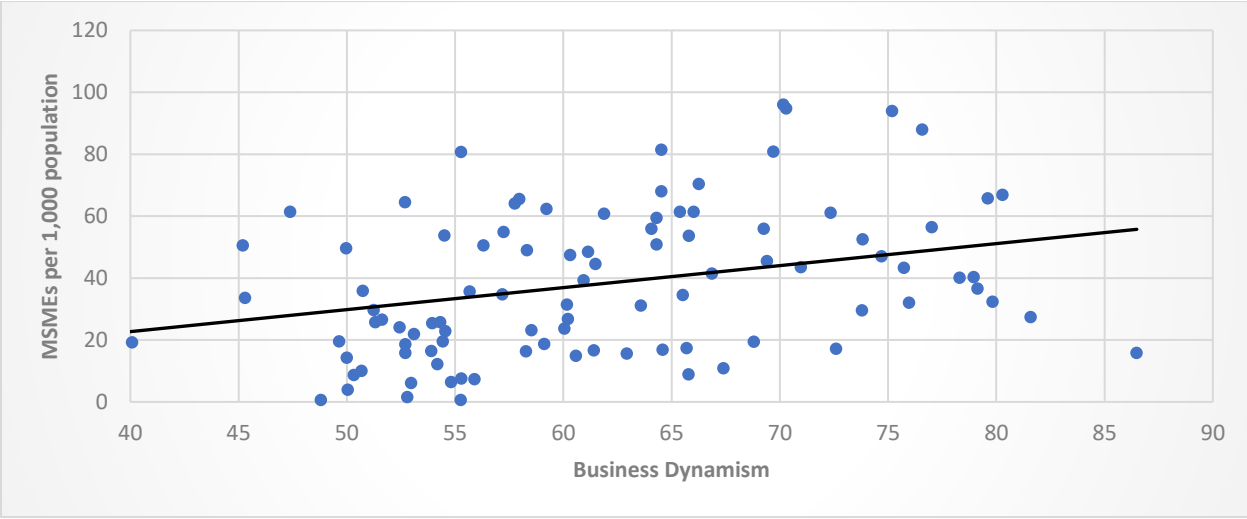
Source: MSME Economic Indicators and the Global Competitiveness Index..

Note: The GCI evaluates the factors that collectively determine the level of a country’s productivity—the most important driver of long-term improvements in living standards The figure uses data from 124 economies. The

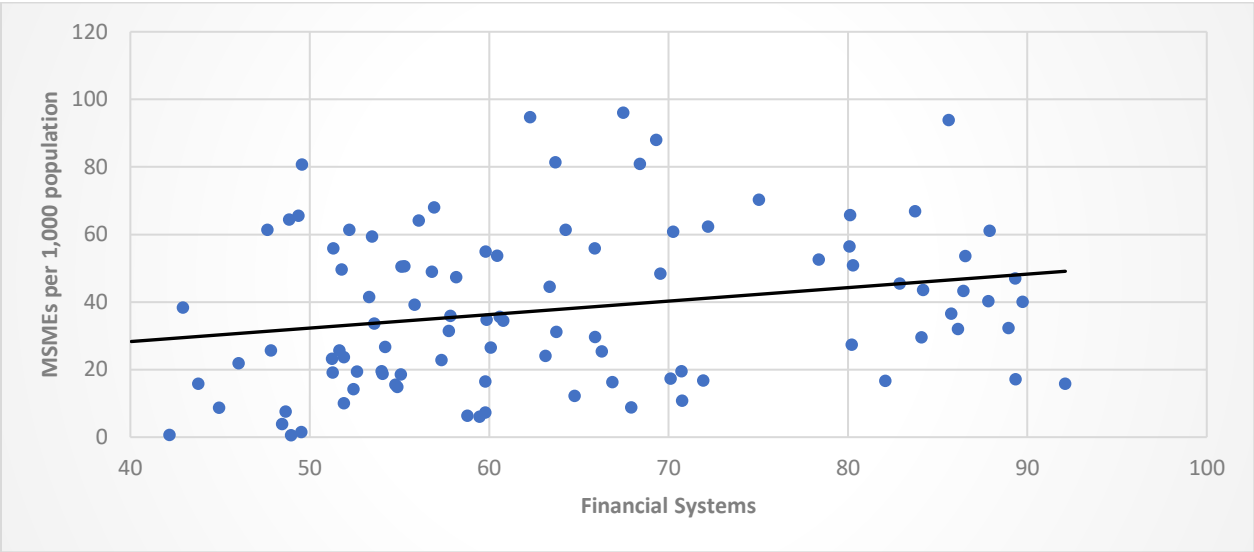
results of the regression, controlling for income per capital and regional dummies, are statistically significant at the 5 percent level.



Source: MSME Economic Indicators and the Global Competitiveness Index.
Note: The GCI Index pillar relating to institutions measures security, property rights, social capital, checks and balances, transparency and ethics, public-sector performance and corporate governance. The figure uses data from 124 economies. The results of the regression, controlling for income per capita and regional dummies, are statistically significant at the 1 percent level.



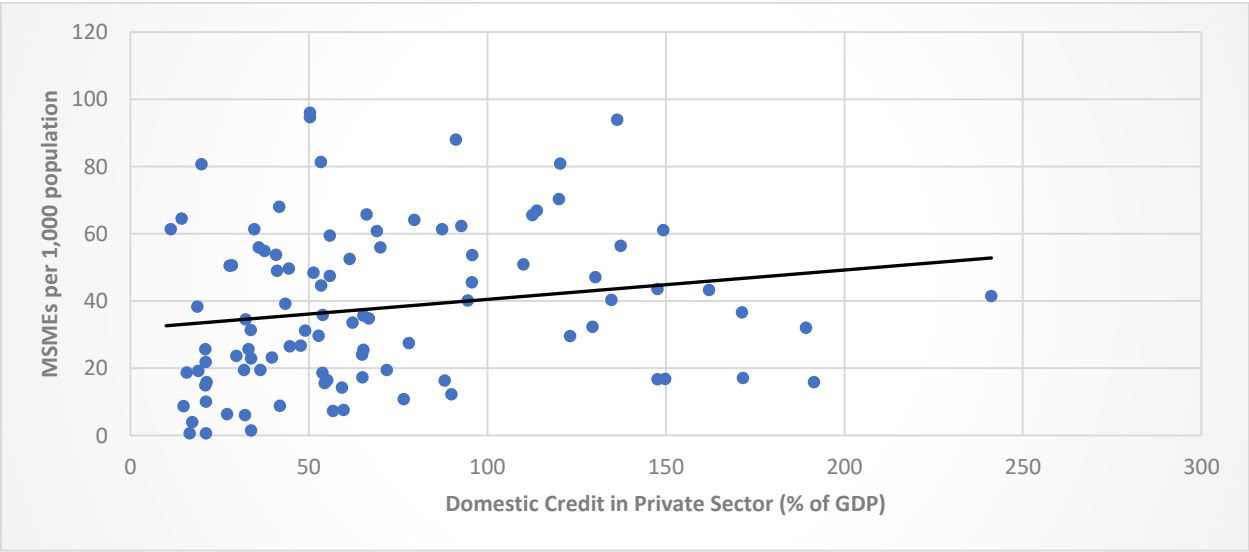
Source: MSME Economic Indicators and the Global Competitiveness Index.
Note: The GCI Index pillar relating to “Business Dynamism” measures the private sector’s capacity to generate and adopt new technologies and new ways of organizing work through a culture that embraces change, risk, new business models, and administrative rules, thereby allowing firms to enter and exit the market more easily. The figure uses data from 124 economies. The results of the regression, controlling for income per capita and regional dummies, are statistically significant at the 1 percent level.



Source: MSME Economic Indicators and the Global Competitiveness Index. Note: The GCI Index pillar relating to “Financial Systems” measures the depth, namely the availability of credit, equity, debt, insurance and other financial products. It also includes stability, namely, the mitigation of excessive risk-taking and opportunistic behavior of the financial system. The figure uses data from 124 economies. The results of the regression, controlling for income per capita and regional dummies, are statistically significant at the 10 percent level.

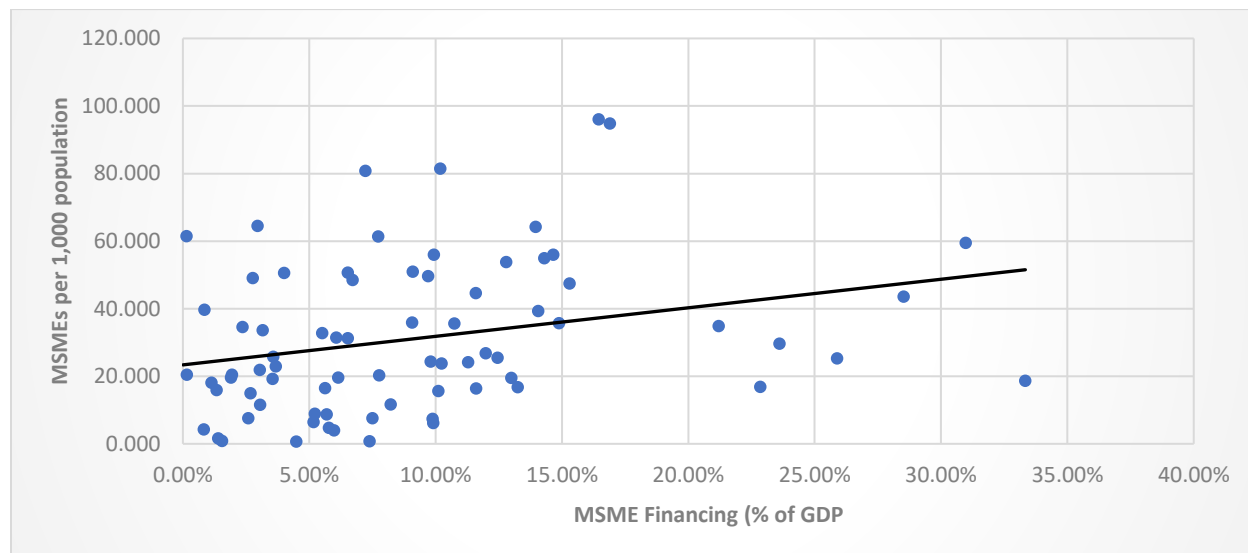
Regarding the GCI sub-component relating to financial systems, an important element is adequate access to finance for MSMEs so that they can function and grow. MSMEs often identify access to finance as one of the most important constraints for growth. To better understand this issue, MSME density was correlated with the availability of domestic private sector credit and MSME financing (both as a percentage of GDP). Better access to finance is associated with higher numbers of MSMEs per 1,000 people.

Figure 18: MSME Density and the Availability of Financing



Source: MSME Economic Indicators and World Development Indicators.

Note: The figure uses data from 124 economies. However, the results of the regression, controlling for income per capita and regional dummies, are not statistically significant at the 10 percent level.



Source: MSME Economic Indicators and the MSME Finance Gap (World Bank Group, 2017).

Note: The figure uses data from 112 economies. The results of the regression, controlling for income per capita and regional dummies, are statistically significant at the 10 percent level.

Conclusion

Since MSME economic indicators were developed a decade ago, the availability of publicly available data from official sources has almost doubled. Nevertheless, data gaps persist across both economies and indicators. There are still close to 30 economies that do not collect and/or make MSME data public. These economies are largely concentrated in the Sub-Saharan Africa region or have very small populations. Many of the economies covered do not have publicly available data for informal MSMEs, women-owned MSMEs and non-performing loans (NPLs). Specifically, only 11 economies have data on informality, only 18 on women-owned MSMEs, and 20 on NPLs (figures 23, 24 and 25).

Figure 19: Eleven economies, where data on informal MSMEs are available.



Source: MSME Economic Indicators.

Figure 20: Eighteen economies, where data on women-owned MSMEs are available.



Source: MSME Economic Indicators.

Figure 21: Twenty economies, where data on MSME NPLs of MSME are available.



Source: MSME Economic Indicators.

As MSMEs constitute a large share of private sector firms — significantly contributing to employment, as well as value added to GDP — closing these data gaps will be important for policy makers and private sector institutions. Access to regularly updated MSME economic indicators can enable governmental agencies to design more efficient evidence-based policy interventions. In addition, it can help financial institutions obtain deeper insights into various market segments and dynamics, as well as calibrate their products and services to evolving needs.

In connection with the 2019 update of MSME economic indicators, the team of researchers, peer reviewers, and regional specialists offered several recommendations with respect to future updates:

- **Expand data sources to include non-governmental entities, such as financial institutions (for example, banks, microfinance institutions), credit bureaus, and chambers of commerce/business councils.** In addition to basic data, these institutions are more likely to have

data regarding NPL rates and the gender of business owners. The sharing of anonymized data by these institutions should also be consistent with their commitments to client confidentiality.

- **Promote stronger coordination of data collection efforts among international organizations.** Presently, several international organizations—at both the regional and international levels—focus on the collection and analysis of MSME data. Forming an international inter-agency working group on MSME data collection that would standardize methods and formats could help save valuable resources and improve data quality through the cross-checking and verification of various sources.
- **Use new technological solutions (for example, digital payment systems, blockchain, and online social networks) to support data collection.** As MSMEs increasingly embrace online presences and digital payment systems, bottom-up data collection could be deployed to complement official data sources.
- **Create international guidelines for MSME data collection for national statistical offices.** MSME definitions differ across groups of economies — and often across various agencies within the same economy. Differences are often a reflection of various economic conditions and public policies. There are cases in which governments have changed MSME definitions from year to year. For statistical purposes, however, it would be useful to employ a common terminology (for example, formal versus informal; women-owned versus women-managed) and quantitative segmentations (for example, the number of enterprises with 1-5 employees versus the number of enterprises with 1-10 employees, and so on).

In order to unleash the potential of MSMEs, transformative policies will be needed to bring about systemic changes in the way that financial markets and institutions operate. The goal should be to reduce the constraints that MSMEs face in accessing financial resources, while also catalyzing the conversion of informal MSMEs into formal ones. Thus, it will be important to have reliable sources of data about MSMEs. Once a proper repository of such data can be fully developed, MSMEs will be better positioned to fuel faster economic growth, thereby generating more employment opportunities.